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# **DIESEL FUEL EQUITY AND SIMPLIFICATION PACKAGE**

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*Funding: An issue of fairness*

*Benefits: Good business sense*

*Tax collection: Time to simplify*



# DIESEL FUEL EQUITY AND SIMPLIFICATION PACKAGE

Efficient and effective systems of mobility translate into stronger economies. Sound transportation investments save money for consumers and businesses. Therefore, every penny spent improving the transportation infrastructure measurably benefits the population as a whole. In Michigan, our road system is at the heart of its economy.

The Michigan Department of Transportation remains committed to our goal of having 90 percent of state roads in good condition by 2007. With recent funding changes and revenue shortfalls at the state and federal levels, we must look for additional resources to fulfill this commitment to Michigan's highways users.

In addition to the 2007 goal, we also are looking at the unique needs of the state's commercial highway network. MDOT will be focusing on major corridors to improve pavement conditions, increase capacity and modernize the system to improve travel and address safety.

All of these goals are achievable with adequate funding that is fairly collected and wisely invested.

## Funding: An issue of fairness

Legislative efforts spearheaded by Gov. John Engler during the past few years have led to a fairer share of transportation funding from trucks. The increases are noteworthy and welcome. Nevertheless, a gap still exists between the amount contributed by trucks for transportation funding and the costs for which they are responsible. The Federal Highway Administration estimates that trucks may be responsible for up to 40 percent of the costs to design, build, repair and maintain roads upon which they travel. In recent years, trucks have contributed less than 16 percent to Michigan's transportation budget.

The gasoline tax increase passed by the state Legislature in 1997 originally included a raise in the diesel tax by four cents per gallon as well. Unfortunately, the diesel tax increase was stripped from the final package. Pending legislation will increase the diesel fuel tax by four cents per gallon, returning fairness to the motor fuel tax rates.

*"The Federal Highway Administration estimates that trucks may be responsible for up to 40 percent of the costs to design, build, repair and maintain roads upon which they travel. In recent years, trucks have contributed less than 16 percent to road and bridge repair funding."*

In addition, use of the money raised by the four-cent increase will be restricted to roads and bridges most heavily used by trucks. A new Commercial Highway Fund will be created that will take in 85 percent of the money raised by the diesel tax increase. It is estimated the increase will provide more than \$32 million per year to this new fund.

The money will be used to target the commercial highway network: the roads that serve as primary arteries for commercial vehicles. The remaining 15 percent will be directed to the Critical Bridge Fund. This program, overseen by MDOT, the County Road Association of Michigan and the Michigan Municipal League, is used to address the local bridges on the federal-aid eligible system that are most in need of repair or replacement. The nearly \$6 million per year that will be added to the Critical Bridge Fund will be used as seed money to apply for additional funds through bonding. This bonding package will allow clearing of the backlog of major bridges on the Critical Bridge List within a few years. Without the additional funding, the work could take decades.

## Tax collection: Time to simplify

Michigan's diesel taxation system is the most complicated in the nation. Burdensome, complex and time-consuming paperwork requirements make things difficult and expensive for truck drivers, their employers and the state Department of Treasury.

Put as simply as possible, here is how the system currently works: Truck drivers pay 9 cents per gallon at the diesel pump. They then file a quarterly tax return to pay an additional 12 cents per gallon to the state. They then file a quarterly tax return in which they apply for a 6 cents per gallon rebate. That means the effective tax on diesel is only 15 cents (9 plus 12 minus 6). The proposed Diesel Equity and Simplification Package will eliminate two of the three steps, moving collection of the entire diesel fuel tax to the pump, as is done with gasoline.

To put this complicated issue into perspective, the state Department of Treasury must interact with only 12 gasoline fuel suppliers to handle tax collection on gasoline. But because of the convoluted system of diesel tax collection, the Treasury Department must interact with 40,000 motor carrier accounts, 1,300 diesel fuel retailers, and 12 suppliers.

Collection of motor fuel taxes currently involves 50 different tax forms. Reducing the tax filing requirements on truckers and trucking companies will save drivers, businesses and the state millions of dollars each year that can be put to use on roads and bridges instead of paperwork and administrative costs.

In addition, the current diesel fuel tax system is complicated and easy to evade. A recently released performance audit by the Auditor General illustrated several collection problems, most of which would be solved by passage of this legislation. One of the most startling discoveries in the report was that the delinquency rate for Michigan intrastate carriers is greater than 30 percent. These are those truck drivers who never file a tax return to pay their diesel taxes. There also is a significant population of motor carriers who file tax returns showing no activity or requesting a refund only. Many of these are inaccurate. The nearly \$9 million of previously lost revenue reclaimed through simplification will be distributed through the historic Michigan Transportation Fund. This fund subsidizes mass transit agencies then distributes 39 percent of the remaining revenue to state roads and bridges, and 61 percent to local roads and bridges.

## Benefits: Good business sense

Good roads save time, money and lives. While there is no way to put a price on a human life, time and money are quantifiable. A commercial highway network that is smooth riding and less congested will help businesses in Michigan through improved travel times for shipping goods and providing services. At the same time, the reduced wear and tear on vehicles will provide a cost savings to Michigan businesses. An additional 4 cents per gallon may cost motor carriers more up front, but there are untold millions of dollars in savings awaiting them in reduced operating and repair costs for their fleets.

Collection system simplification will benefit motor carriers, commercial interests and the economy as well. Michigan intrastate motor carriers currently have to file quarterly tax returns, paying an additional 6 cents per gallon for diesel fuel. The system does not allow them to pay all their taxes at the pump. There are about 9,000 intrastate motor carriers operating 39,000 trucks impacted by this problem. The proposed system will eliminate licensing 9,000 carriers, issuing 39,000 decals, and 36,000 quarterly tax returns that intrastate carriers now file and the state Department of Treasury has to process.

There are approximately 5,600 interstate motor carriers based in Michigan, operating 53,000 trucks. Under today's system, even if they buy all of their fuel in Michigan, interstate carriers must file quarterly tax returns paying an additional 12 cents per gallon for fuel consumed in Michigan. They then file another quarterly tax return form asking for a refund of 6 cents per gallon purchased in Michigan. Reforming the system will eliminate the 22,400 refund tax returns filed each year. Under the new system these carriers will continue to file quarterly International Fuel Tax Agreement returns, however, they will owe very little money on these quarterly returns, if they buy their fuel in Michigan. If they buy their fuel outside of Michigan, however, they will be required to pay the 6-percent sales tax. This means interstate truckers will no longer avoid Michigan's 6-percent sales tax on diesel by buying fuel in other states. This will end the disadvantage currently faced by Michigan truck stops in competing for business. It is estimated that there are approximately 40,000 motor carriers operating 300,000 trucks from other jurisdictions on Michigan's roads.

The proposal also calls for automation of the collection system. Cost savings from this new process will be distributed through the Michigan Transportation Fund.

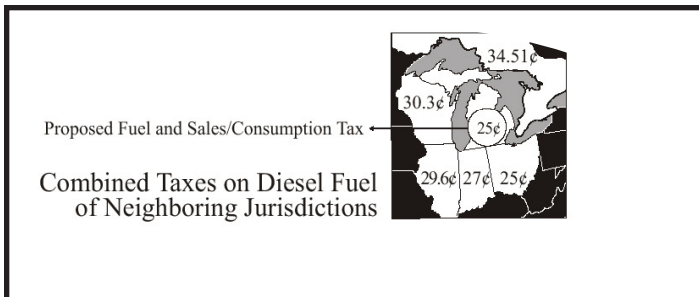
## Conclusion

**A**t the Michigan Department of Transportation, we are improving our total transportation system by efficiently delivering transportation products, services and information. Our job isn't just to build and maintain roads. It is to make wise investment decisions on behalf of our stockholders: the taxpayers.

Significant progress has been made in recent years in improving the pavement condition on Michigan's roadways. But there has been little change in another key measure of highway customer service: congestion. Vehicle miles traveled in Michigan increased 58 percent from 1980 through 2000. During the same time, however, the number of lane miles has increased only 3 percent. To make progress against road congestion, we need to expand key free-way routes. These projects will be enormously expensive

and road users will need to help cover the costs. For example, the proposed reconstruction and widening of just six miles of I-94 in Detroit are estimated to cost \$1.3 billion, and MDOT has not been able to identify the necessary funding. Another major project lacking funding is the widening and improvements for I-75 and major local roads in Oakland County, which have an estimated price tag of \$1 billion. Trucks account for up to 30 percent of the vehicles on some parts of I-94 and I-75.

The proposed diesel fuel tax increase is tiny when compared with the cost of improvements to these routes. However, the cost of not having adequate funding to address these ever-increasing needs could be so large that it will devastate Michigan's mobility, dragging down with it our quality of life and economic stability.



If you have any questions about this or any transportation-related issue, please contact us:

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